CHINA'S WTO ACCESSION

Ambassador Charlene Barshefsky
U.S. Trade Representative

National Women's Democratic Club
Washington, DC

April 11, 2000

Good morning, and thank you very much. I am pleased to be here with you this morning, and for the opportunity the National Women's Democratic Club has given us to speak and exchange views on one of America's most important trade and foreign policy goals: China's accession to the World Trade Organization and permanent Normal Trade Relations.

ONE-WAY CONCESSIONS

In the most basic sense, of course, these are technical trade issues. And as such, they present us with a fairly simple choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton sent to Congress last week, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

Permanent NTR is the only policy issue before Congress. Regardless of our decision, China will enter the WTO and it will retain its market access in America. The only question now is whether, by making NTR permanent, we accept the benefits of the agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are left behind.

DEEPER ISSUES

One might end a discussion of the WTO accession right there; from a purely trade policy perspective, it would not be wrong to do so. But we must also think about the wider implications of our decision.

China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st strategy; and our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These disagreements and points of tension often dominate the China debate. Many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. And given the gravity of our relationship, it is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin by tracing back to its origins the institution China now seeks to join.

AMERICA AND THE TRADING SYSTEM

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which had deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades: collective security, reflected by the United Nations, NATO and our Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Our Asia policies today continue to reflect these principles.

– Our military presence in the Pacific, and alliances with Japan, South Korea, and other Pacific democracies, remain the strongest guarantees of a peaceful and stable region.

– Our advocacy of human rights, over the years, has helped reformers bring democracy to South Korea, Taiwan, Thailand, the Philippines and most recently Indonesia.

– Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that accompany economic crisis.

– And our trade policy – under the Clinton Administration, creation of a regional framework for open trade through APEC; nearly 100 specific market-opening agreements including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and work toward normalization of trade relations with Cambodia, Laos and Vietnam – is

helping to build create a more open region with greater prospects for sustainable growth.

Stepping back for a moment, half a century of experience fully vindicates the vision set out fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And -- as Truman and his colleagues predicted -- in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road after the war.

With the Communist revolution in 1949, it shut doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And while the immediate goals of our China trade policy – from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to more recent agreements on intellectual property, textiles and agriculture – have always been concrete and specific American trade interests, trade policy has also helped to support reform and bring China more fully into the world and regional economies.

U.S. TRADE POLICY AND THE WTO ACCESSION

To choose a specific example, our intellectual property initiatives since the early 1990s have been based first and foremost on our commitment to fight theft through piracy of some of our most valuable products. In this it has been a success: it has helped us to nearly eliminate

Chinese manufacturing and export of pirate CDs and sound recordings, with the closure of more than 70 pirate plants.

But our intellectual property work also means something more. To develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law. The same can be said of our work on textiles, or industrial market access, or most recently the agricultural agreement of 1999, which has led to our first shipments of Pacific Northwest wheat, Florida grapefruit and California oranges to China in the modern era.

In this context, the bilateral agreement we reached with China on WTO accession last November takes on its full significance. It is comprehensive, opening China's market to our farm products, manufactured goods and services; and addressing the array of unfair trade practices in the Chinese market. And let me now give you a look at the details.

– In industry, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005. China will eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and import the parts and products they choose.

– China's markets will open for the full range of services industries: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and others. In fields such as telecom and distribution, China will open to foreign participation for the first time since the 1940s.

– In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products; end import bans,;cap and reduce trade-distorting domestic supports; eliminate export subsidies; and base sanitary and phytosanitary standards on science.

– And American firms and workers will receive greater security against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. The agreement addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special anti-import surge remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use a special non-market economy methodology to address dumping for 15 years.

All these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, periodic multilateral review of China's adherence; multilateral pressure from all 135 members of the WTO; increased monitoring by the U.S., with the President's request for tripling of funds for China compliance and enforcement in his Fiscal Year 2001 budget, and other

mechanisms such as the special anti-dumping and anti-import surge remedies.

Finally, China's entry will facilitate the entry of Taiwan into the WTO, as Taiwan's new leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China. And the opening of both these economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait.

PERMANENT NORMAL TRADE RELATIONS

China will be a WTO member very soon. The only question, ironically, is whether we will receive the benefits. And that brings me to permanent Normal Trade Relations, or NTR.

By contrast to China's historic set of commitments, we do very little. As China joins the WTO, we make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology, and amend none of our trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated. This includes broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. In terms of our China policy, this is no real change. NTR is simply the tariff status we give virtually all our trading partners; which we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and factory workers, as well as service providers, would be left behind.

WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

As even the brief review I have given indicates, China's commitments go well beyond

sharp reductions of trade barriers at the border. China will:

– For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
– Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
– Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
– And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather economic opening to and engagement with the world, and ultimately development of the rule of law. This is why some of the leading advocates of democracy and human rights in China – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party – see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. Economic reform has thus helped move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values – as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as will do next week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20th century:

> "We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights."

In this spirit, we recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

Each step since the lifting of the trade embargo has rested upon concrete American interests; helped to promote reform and the rule of law within China; and integrate China in the Pacific economy. Thus, each step has strengthened China's stake in prosperity and stability throughout Asia. Together with our network of Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process for many years.

CONCLUSION

That makes the choice before Congress very clear.

In economic terms, to reject PNTR would be foolish; to pass it is to open a set of new opportunities and guarantees of fairness in China trade unmatched in the modern era.

For reform and liberalization in China, to reject permanent NTR is to turn our backs on nearly thirty years of work to support reform, improve the legal system and offer hope for a better life to hundreds of millions of Chinese; to pass it is to strengthen the hope that we can contribute in the future to a China freer, more open to the world, and more responsive to the rule of law than it is today.

And for our fundamental national security interest, to reject PNTR would be reckless: if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country. And to pass it is to strengthen the chance of building a peaceful, stable Pacific in the years to come.

That is the opportunity before us. These are the stakes as Congress prepares to vote. And that is why it is so important that we succeed.

Thank you very much.